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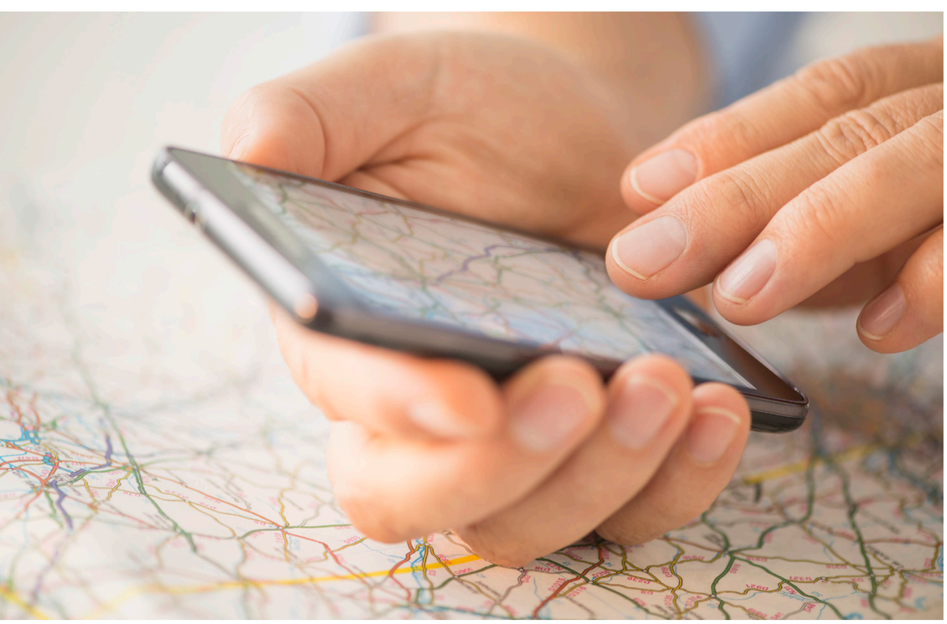
Federal CFO Insights
Knowing the destination before embarking on the shared services journey

Government executives have long been faced with the challenge of doing more with less – providing essential citizen services in a fiscally responsible way. This imperative has come under even greater scrutiny in recent years, fueled by a growing national debt and budgetary debates that highlight the challenge of shrinking government spending while funding new or existing programs to meet public demand.

The Federal CIO, Steven VanRoekel, and the Office of Management and Budget have recently directed Federal agencies to shared services as a way to reduce spending on back office functions and administrative systems in order to free up personnel and other resources for mission-critical tasks. While some departments and agencies have embraced the move many Federal CFOs are still wondering whether shared services is the right destination.



The journey to shared services is not the same for every organization; however, defining the objectives and desired results (i.e. the "destination") before embarking on the journey will ease the transition and minimize the chances of getting lost along the way.

Planning for the journey

The decision to transform an agency's financial operations and adopt shared services should be made with the organization's wider operational strategy in mind — considering the benefits and consequences it may have on all aspects of the organization. When these considerations are taken into account, CFOs experience more realistic outcomes and have greater success in achieving their implementation goals.

More than an 'IT roadmap'

When consolidating financial services or moving to an external shared services provider, the immediate catalyst or focus may be on the technology – perhaps outdated or high-maintenance systems require the move to an off-the-shelf ERP solution that meets transactional and reporting needs. However, the decision to move to a financial shared services model requires a more thoughtful analysis than just the IT business case alone.

Even if the agency is only transitioning the finance system to an externally hosted ERP solution, staff may still have substantial training and workforce challenges internally to adopt new business processes for a new financial management system. A comprehensive approach considering the impacts of migration on the entire organization is necessary. Including technology, the following key components should be examined:

- **Mission:** Are there financial or other mission support functions that are critical to the Department's/Agency's vision and goals? Mission-dependent functions may more effectively reside within local business units or at the executive level, rather than in the shared services model.

- **Process/operations:** What is the scope of shared services? For example, is the organization primarily looking to consolidate or migrate system hosting, operations and maintenance, or the business operations/processes as well? Also, will just a single function be migrated, or will other related functions also be consolidated (e.g., asset management and procurement)? What processes are more transactional in nature, and which are more specialized or knowledge-based? These types of process classifications will identify the activities that are best suited for a shared services operation, versus those that should be retained by the agency because they require more unique business knowledge. In addition, new processes may be needed to manage the shared services organization.

- **Organization and people:** Where do current functional responsibilities reside in the organization, i.e. are they decentralized across all the business units or more consolidated at the corporate level? In making the decision to move to shared services, the agency should consider whether resources currently performing finance functions would be reallocated to perform different jobs as a result of moving to a shared services model and, if so, assess their skill sets and competencies in order to plan appropriately for the realignment of human resources. If the agency is planning to only outsource the operations and maintenance of the finance system, internal staff who currently perform system maintenance activities will likely need to be reallocated to perform other work. Finally, another key consideration is whether the agency has the current skill sets to manage the relationship with the new shared services provider. The skill sets required to manage Service Level Agreements are usually different than those of project managers who oversee in-house systems or the typical contract officer.

- **Technology:** What is the inventory of current systems and can they be divested/migrated into a single system? The technology assessment should also factor in any home-made supporting systems like Access databases or Excel spreadsheets used process or analyze financial data. Is migration to a new system required, and if so what impacts does system migration have on current data and operations? Consider that the agency may need new data warehousing and reporting solutions consistent with any new finance system.

- **Facilities:** Would the move to a shared services provider enable the agency to consolidate regional/local facilities used today for system hosting or finance processing? What benefits and costs exist with migration of facilities and staff?

- **Change management:** What degree of change will occur based on the envisioned technology, processes, and organization? Does the organization have the proper leadership buy-in to support the change in a feasible timeline? In addition to CFO and CIO buy-in, successful migrations will have the support of agency program leadership because core budgeting and spend management activities are executed within program offices.

You get what you ask for — understanding performance requirements

If the decision is made to move to a financial shared services organization, the selection and management of the provider is just as important prior to migration as it is post migration. Understanding the capabilities of the provider, service levels, and operations of the provider properly set expectations and assist in making the decision to move to the new model.

Prior to understanding the performance levels of potential service providers, agencies should understand their own current operations and metrics achieved in-house. It may be necessary to evaluate existing performance indicators to identify the performance targets desired of shared services as well as service levels that can be improved by moving to shared services. If service levels are not currently tracked, establishing mechanisms for measurement is a necessary step. Key performance indicators should measure operational efficiency, productivity, quality/accuracy, and cost.

Finally, preliminary discussions with potential service providers should explore not only their current performance but also their ability to scale their operations to maintain service levels over time. Has the shared services provider processed the same types of transactions for organizations of a similar size and complexity?

These considerations together will allow CFOs to be well-informed consumers of shared services and make the most out of the provider relationship.

Knowing when the price is right

An obvious consideration for CFOs when deciding on the right shared services approach is the business case and expected financial value from the move to shared services. In the Federal market, the business case may be complicated based on the timing of the budgetary cycle and the ability to effectively estimate the cost of migration as well as the longer term costs of the shared services relative to current operations.

An effective business case will take the following factors into consideration:

- **Chargeback model:** Understanding the chargeback model for shared services can help estimate future costs and plans for needed resources. According to Deloitte's 2013 Global Shared Services Survey, the most common chargeback method is based on transaction volume, however, some shared services are charged based on allocated headcount of the provider, or based on revenue. Understanding the chargeback model can identify cost drivers and enable better cost management.

- **Payback period:** Moving to shared services reduces costs overtime, and typically achieves a payback period between one and four years. The factors that may impact the length of the payback period include the extent of one-time costs during the migration such as data clean-up, ability to reduce or realign headcount, and scale/scope of the transition.

- **Costs that are typically overlooked:** Some cost drivers are frequently overlooked or discounted during the planning phase, resulting in inaccuracies in cost estimates/budgets. For example, costs related to the retained functions and personnel at the agency, or costs related to changes in volume or processes.

Have a data management plan

In planning for a transition to shared services, it is also critical to understand data management requirements and any integration points required with retained systems. CFOs are the owners of financial data, and should play an active role in conjunction with the CIO in the creation of a data migration plan. The shared services organization should assess data migration needs and mapping for conversion purposes. Strategies should address the maintenance of legacy databases for historical data purposes, handling one year versus multi-year or no-year obligations, and vendor file management.

CFOs should also consider access requirements and reporting capabilities of the future solution. The agency should consider the degree of system and data access needed, and availability of management and other ad hoc reports that will enable visibility into data. In addition, considerations include how the shared services system will interface with existing agency reporting tools, and what reporting or analytics services should be included in Service Level Agreements with the shared services provider. Even if the shared services solution includes support for Federal and/or departmental reporting, agencies may still need to account for business intelligence and daily management reporting requirements.

The move to shared services can greatly improve operational efficiencies and help Federal CFOs meet increasing demands to do more with less, however, the transition plan should take into effect all organizational, operational, and technology requirements and impacts on the Department or Agency. The CFO is well positioned to help the organization prepare for a smooth transition and avoid the pitfalls on the journey to shared services.

2013 Global Shared Services Survey Spotlight

The move to shared services continues to be an important strategy embraced by both public sector and private sector CFOs and other C-level executives. Every two years Deloitte conducts an extensive survey — the *Global Shared Services Survey*, last published in 2013 — of large, complex organizations to understand the trends, outcomes and lessons learned. The 2013 *Survey* collected insight and responses across 277 respondents, representing ten different industry sectors including government.

Why do organizations move?

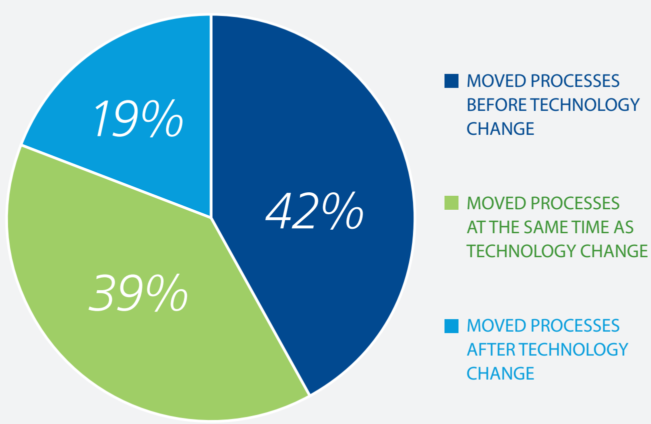
A variety of business drivers lead organizations to pursue shared services, but a quarter of survey respondents cited business restructuring and cost reduction as the main driver — a concept that most Federal CFOs are familiar with. However, scalable growth (23%), the overall economy (11%), technology change (10%), and need for internal controls (9%) also influenced their decision making.

What is moved to the shared services model?

CFOs should consider the desired scope of shared services and when to transition processes to a shared services model as part of the initial assessment. Of the respondents, 93% indicated that financial services are included in the shared services model — more than any other function listed. In addition, HR, procurement, and other administrative functions are becoming more popular functions to place in a shared services model. Federal CFOs may consider additional benefits from leveraging shared services for integrated functions like finance and procurement, for example.

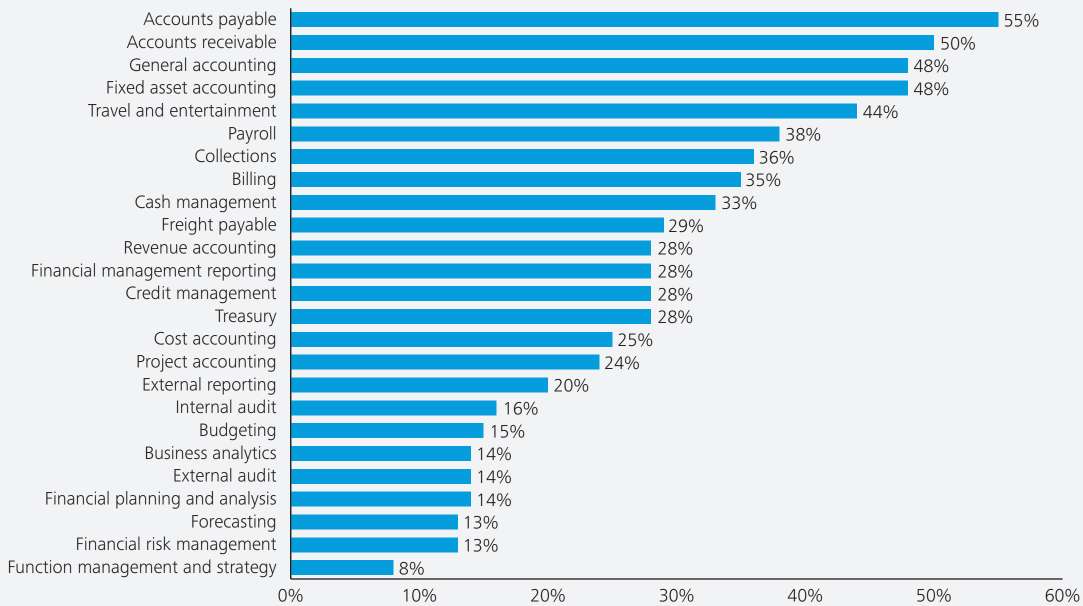
Although many may be swayed to move to a specific technology platform first and then let the processes fall into place, the Survey indicates that the most popular approach to implementing shared services (51% of respondents) is to undertake process standardization prior to or simultaneous with technology changes.

Did you move processes to Shared Services before, during, or after technology change?



In addition, the scope of financial shared services varies. While the most common financial processes to consolidate to a shared services model are the transactional processes (e.g., Accounts Payable — 55%, Accounts Receivable — 50%), other more knowledge based processes may also be considered.

Which financial processes does your organization perform in Shared Services?



Financial processes

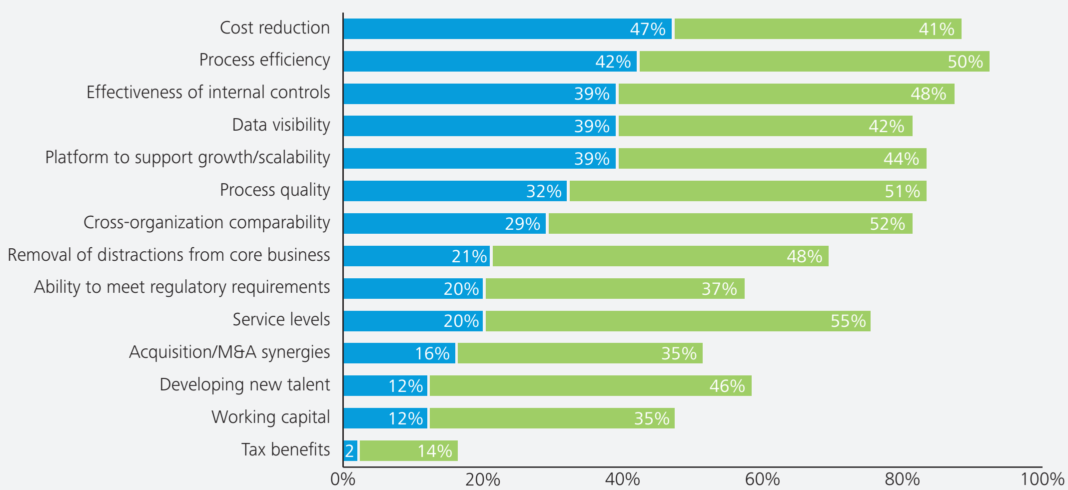
- Transactional processes continue to be the top processes denoted as Shared Services
- Business analytics was the top process noted as being considered for future inclusion in Shared Services
- Payroll, accounts payable, and external audit were the top financial processes outsourced

Note: Percentages are based on respondents who indicated they had the function in Shared Services

Is it worth the cost of moving?

The bottom line is organizations can achieve great benefits from implementing a shared services model if done so with the right expectations, plans, and intentions. Respondents cited a plethora of positive impacts from cost reduction, process efficiency, and effectiveness of internal controls to data visibility and process quality.

Where has Shared Services had a positive impact?



Positive impacts of SSCs

- The top five benefits remain consistent since 2011
- Respondents indicated a wide variety of benefits with cost reductions being the top
- An increased number of respondents are finding that Shared Services enables M&A synergies as compared to 2011

The benefits for Federal CFOs are endless, but only if the proper planning and considerations are taken into effect during the decision to move to a shared services model.

Primary contacts

Jennifer Walcott
Principal
Deloitte Consulting LLP
jwalcott@deloitte.com

Allison McCue
Senior Manager
Deloitte Consulting LLP
amccue@deloitte.com

Jennifer Tifft
Manager
Deloitte Consulting LLP
jtifft@deloitte.com

Deloitte *Federal CFO Insights* are developed with the guidance of Roger Hill, Principal, Federal CFO Program Leader, Deloitte & Touche LLP; and Philippe Podhorecki, Manager, Federal CFO Program, Deloitte Consulting LLP

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